OFFICE OF
INSPECTOR GENERAL

Semiannual Report to Congress
April 1, 1999 - September 30, 1999

Federal Election Commission
999 E Street, N.W.
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EXECUTIVE SUMMARY

This report is submitted pursuant to the Inspector General Act of 1978, as amended, and includes a summary of the Office of Inspector General's (OIG) activities for the period April 1, 1999 through September 30, 1999.

A significant amount of available OIG resources have been committed to the Y2K issue, not only during this reporting period, but during the past calendar year. The main focus of this report will be on that effort.

During this reporting period, a real-time audit was conducted on the agency's Y2K effort resulting in nine constructive recommendations. However, issuance of the audit report did not end OIG involvement. We immediately followed up and tracked the agency's progress in implementing our audit recommendations, and continue to evaluate and report on the agency's Y2K progress as regularly reported by the FEC to OMB. In addition, an OIG review for Y2K renovation of the agency's embedded chip technology has been scheduled during the next reporting period.

We have continued to keep the Commissioners and management apprised of agency progress in the Y2K area by a series of advisory memorandums. In an advisory memorandum dated April 20, 1999, the OIG identified two high risk conditions relating to the agency's Y2K renovation

efforts. In another memorandum dated July 20, 1999, the OIG identified

conditions which continue to pose a high risk to the FEC. Further details

concerning these memorandums can be found in the *Y2K* section of this

report.

As a consequence of our audit report and advisory letters, the IG and

the Director of Data Systems Development Division (DSDD) were

subsequently asked to give testimony before the FEC Commissioners,

appraising agency progress in the Y2K renovation project. The Director of

DSDD expressed confidence that under his leadership the agency's Y2K

problems would be fully resolved. Contrary to the positive assurance

expressed by the Director of DSDD, the IG reported that based on evidence

gathered during the Y2K audit, along with results from a follow-up

evaluation, the FEC remains highly vulnerable to the Y2K problem.

The Commissioners showed particular concern for the degree of

assurance the agency's Y2K project could provide that our computer systems

and related technology will be prepared for January 1, 2000. The

Commissioners have scheduled another open discussion regarding the Y2K

issue for November 10, 1999. Details concerning the original hearing can be

found in the *Y2K* section of this report. The OIG will continue to monitor the

Commissions progress in addressing its Y2K responsibilities.

Also during this reporting period, follow-up work was done on three audits and two cash counts of the FEC's imprest fund were performed. The audit and follow-up work are summarized below:

Audit of Agency Year 2000 (Y2K) Renovations - OIG 98-08:

The primary objectives of the audit were to 1) verify the reported progress of the FEC's Y2K renovation project; and 2) evaluate compliance with applicable laws & regulations. Agency progress was evaluated using OMB's milestone dates and GAO's methodology. The Y2K team was regularly updated on all project risk identified during the audit fieldwork and provided specific recommendations to reduce exposure to those risks.

During the audit agency computer systems were identified, assigning the highest priority to those systems which transfer data and systems that receive electronic data from outside sources. The audit assessed the risk associated with the Y2K renovation of the computer systems within these critical areas and recommendations were offered which we felt would reduce the agency's exposure to the Y2K problem.

We found, among other things, that the agency's computer hardware, 3rd party software, and supporting communications network were not yet Y2K compliant. In addition, while system renovation work and

unit testing had been performed, other testing on the agency's most important computer system had yet to be completed.

Based on the audit work, we concluded that the progress reported by the FEC is consistent with the actual Y2K project results achieved. However, there are still major issues to be addressed before the Commission can be Y2K compliant.

The audit report contained nine constructive recommendations for project improvement. Details concerning this audit are discussed in the ***Y2K*** section of this report.

Follow-up work on the audit of the Commission's Management of Computer Software - OIG 98-05, was conducted during this reporting period. The original audit report was released March 1999. The primary objectives of the audit were to 1) verify that the Commission's computer software was in compliance with applicable copyright laws and Commission policies and procedures; 2) determine that adequate policies and procedures are in place to prevent unauthorized software use by Commission employees; and 3) ensure that adequate controls are in place to detect and prevent computer

viruses. The original report contained one finding and three recommendations.

We inspected documents and contacted the Data Systems Development Division (DSDD) in order to determine whether corrective action has been taken to resolve the audit finding and recommendations. Based on our review of documents and correspondence with the DSDD staff, we found that DSDD has not completely resolved two of the three audit recommendations contained in our original report. Details of the follow-up work are discussed in the *Audit Follow-up* section of this report.

Follow-up work on the audit of the FEC Property Management (Computer Inventory) - OIG 97-03, was conducted during this reporting period. The original audit was released January 1998. The primary objectives of the audit were to 1) identify and evaluate the adequacy of internal controls over desktop and laptop computers; and 2) evaluate the procedures in place to ensure that computer equipment having an acquisition cost over $5,000 is capitalized and that there is documentation to support the unit cost of computers under $5,000.

We inspected documents and contacted the Data Systems
Development Division in order to determine whether corrective action
has been taken to resolve the audit findings and recommendations.
Based on our review of documents and correspondence with the DSDD
staff, we found that although some action had been taken by the
DSDD to correct the weaknesses cited in our report, the action taken
was not sufficient enough to resolve the audit findings. Details of the
follow-up work are discussed in the ***Audit Follow-up*** section of this
report.

***Follow-up work on the audit of the Review of the Commission's
Employee Appraisal Process - OIG 97-02***, was conducted during
this reporting period. The original audit was released January 1998.
The primary objectives of the audit were to 1) determine whether the
Commission's Employee Appraisal Process was in compliance with
applicable Federal Regulations and Commission Personnel instructions;
and 2) determine whether the Commission's monetary incentive
process is in compliance with applicable Federal Regulations and
Commission Personnel Instructions.

The original report contained four audit recommendations. After
follow-up work was completed, it was discovered that one
recommendation had been implemented, leaving three

recommendations open. We would like to note that the Personnel

office has had a significant staff turnover in the past two years. The

current Director of Personnel has been working on the remaining open

recommendations. Details of the follow-up work, as well as the status

of the remaining open recommendations, are discussed in the ***Audit

Follow-up*** section of this report.

Also during this reporting period, a peer review of the office was

conducted by the Appalachian Regional Commission, Office of Inspector

General. The objectives of the peer review were to 1) determine whether an

effective internal quality control system had been established in the office;

and 2) established policies and procedures and applicable *Government

Auditing Standards*, as promulgated by the Comptroller General of the

United States (GAO), are being followed in practice.

The review concluded that a system of internal controls is in place and

operating effectively and that the audits performed by the office are being

carried out in accordance with GAO *Government Auditing Standards*.

Details concerning the peer review are discussed in the ***Additional Office of

Inspector General Activity*** section of this report.

THE FEDERAL ELECTION COMMISSION

The Federal Election Commission (FEC) is an independent, regulatory agency responsible for administering and implementing the Federal Election Campaign Act (FECA). The FEC is composed of six Commissioners who are appointed for six year terms by the President of the United States, with the advice and consent of the Senate. The FECA likewise established the positions of Staff Director and General Counsel, who are appointed by the Commissioners.

OFFICE OF INSPECTOR GENERAL

The Federal Election Commission is one of the thirty-three designated agencies required to have an Inspector General under the 1988 amendments to the Inspector General Act of 1978 (P.L. 100-504).

The responsibilities of the Inspector General as stated in P.L. 100-504 are as follows:

- o conduct and supervise audits and investigations relating to the Federal Election Commission's programs and operations;

- o provide leadership, coordination, and to recommend

policies for activities designed to promote economy, efficiency and effectiveness in the administration of Commission programs and operations. To prevent and detect fraud, waste and abuse in these programs and operations, and;

o   keep the Commissioners and Congress fully and currently informed about problems and deficiencies and the need for and progress of corrective actions.

The OIG staffing level for FY 2000 is 4 FTE. The staff consists of the Inspector General, the Special Assistant to the Inspector General and two Senior Auditors.

YEAR 2000 (Y2K)

Early awareness of the size and scope of the Y2K problem, prompted the OIG to commit a significant amount of available resources to assist the FEC in addressing this vital issue. Early in 1998, the Staff Director was notified of our interest in staying abreast of agency progress in making computer systems Y2K compliant. Based on feedback from this request, the OIG subsequently conducted a real-time audit resulting in nine constructive recommendations for project improvement. However, issuance of our audit report did not end OIG involvement. We immediately followed up and tracked the agency's progress in implementing our audit recommendations, and we continue to evaluate and report on the agency's Y2K progress as regularly reported by the FEC to OMB. In addition, an OIG review has been scheduled for Y2K renovation of the agency's embedded chip technology.

As mentioned, one of the major projects the OIG accomplished was a real-time audit of the FEC's Y2K Renovations. The audit, titled *Audit of the Agency Year 2000 Renovations,* was released in May 1999. The primary objectives of the audit were to 1) verify the reported progress of the FEC's Y2K renovation project; and 2) evaluate compliance with applicable laws and regulations.

(Y2K Continued)

The audit was conducted to assess whether the progress reported by the FEC matched its overall state of readiness. Special emphasis was placed on two priority areas: 1) systems that provide and receive electronic data from outside parties; and 2) core business functions that rely on computer processed data. To accomplish the objectives, various methods of data collection were used, including interviews, surveys, and review of documents.

The audit was not limited solely to evaluating the agency's progress for preparing its mission critical systems, a cursory review of the agency's overall state of readiness was also performed. To obtain a perspective on the adequacy of the FEC's Y2K project OMB directives were used, as well as guidance issued by GAO. As part of the audit, the system of management controls, policies, procedures, and practices applicable to the FEC's management of the Y2K project were assessed. During the course of the audit, FEC officials were regularly briefed on audit results and suggestions for improvement were offered.

Based on our audit work, it was concluded that project status as reported by the FEC was consistent with its actual progress. However, reportable conditions were identified and nine recommendations for project improvement were provided. Listed below are those recommendations, as

well as actions taken by Y2K project management since the release of the audit report. The OIG recommended that:

1) The Y2K team inventory and document internal and external data exchange dependency links. *Project management has implemented this recommendation.*

2) The FEC should communicate with each external data exchange partner regarding the Y2K issue. *Project management has reported that they implemented this recommendation.*

3) Project management issue the statement of work for external communication services, complete work on the internal communications network, and perform end-to-end testing for the mission critical communication network. *The Information Technology contract has been signed, and project management has reported that work is progressing on the internal communication system, and system testing has been scheduled.*

4) the FEC improve the accuracy of its progress reports submitted to the U.S. Office of Management and Budget

regarding the agency's Y2K project. *Management has implemented this recommendation.*

5) a contingency plan be developed and tested in the event that a mission critical system fails. *Management has begun work implementing this recommendation.*

6) a thorough testing for the mission critical FEC Faxline System should be performed. *During October 1999, project management successfully tested this system for Y2K compliance.*

7) the statement of work for independent verification of the renovation of the agency's internally developed software should be issued. *Management has signed a contract with an outside vendor for these services.*

8) if project management is to rely on user acceptance testing as stated in agency Y2K project progress reports, then project management should conduct meetings with each division/office to assess whether user acceptance testing has been completed. *This audit recommendation has not been implemented.*

9) a listing of agency-wide computer technology contracts should be prepared and evaluated to ensure that

Y2K provisions have been added to comply with Federal

regulations. *Management has begun work implementing this*

recommendation.

Out of those nine recommendations - three recommendations have

been implemented; four recommendations are in different stages of

completion; one recommendation has not been implemented, and the OIG is

following up on one recommendation reported as implemented.

The audit process has not been the only vehicle the OIG has used to

provide information to management and the Commission. For example, early

in the audit process the OIG provided the Y2K project team with an

electronic draft copy of a Y2K plan developed by the Department of

Education/Office of Post Secondary Education. This was done after the Y2K

project team repeatedly set deadline dates for the completion of a

comprehensive Y2K management plan and a plan was still not developed.

It was recommended that the plan from the Department of Education,

be used as a benchmark guideline for developing the FEC Y2K management

plan. In addition, we suggested sending the final version of the FEC

comprehensive Y2K management plan, by way of a memorandum, to each division/office in order to raise awareness and disseminate pertinent information regarding the Y2K project. It was also suggested that the cover memorandum request the submission of contingency plans for any high level business function relying on data processed through a mission critical computer system. The OIG felt that these suggestions and contributions would increase an overall understanding of the problem and facilitate staff involvement, helping to foster an agency-wide team effort.

In another advisory memorandum to management, dated April 20, 1999, the OIG identified the following two high risk conditions relating to the agency's Y2K efforts:

- The Y2K project team had not prepared or documented a comprehensive Year 2000 management plan. We suggested that the FEC 1) immediately complete and distribute the agency-wide comprehensive Y2K management plan, and 2) establish timely delivery dates for receiving crucial information from the division offices regarding Y2K preparation. *Project management has not implemented the OIG suggestion to develop and document a comprehensive set of plans for the Y2K Project.*

- Y2K conversions have been made without the Y2K project team documenting the changes made to the programming code. It was suggested that the FEC should develop and follow standardized procedures requiring documentation for any and all program software changes. Documentation should identify the types of changes made in the programs, the location of the changes or new code, the location of bridge programs and the technique being used to convert dates between files, applications, and data exchanges. It was further suggested that the Y2K project team document all changes to the software programs. *Management has not implemented the OIG suggestions to have agency programmers document their Y2K repairs to the internally developed programming code.*

The OIG has also kept the Commission apprised of the status of the Y2K project. In a memorandum to the Commission, dated July 20, 1999, the OIG identified conditions which continued to pose a high risk to the FEC as a result of the Y2K problem. We offered our suggestions for mitigating those risks:

- According to the agency's May 1999 Y2K progress report to OMB, as amended, the internal communications network is only 50% Y2K

compliant and not scheduled to be completely renovated until
November 30, 1999. This late renovation will allow little time for
corrective action in the event that further efforts are proven
necessary from either renovation or testing. The OIG suggested
that the Commission follow guidelines developed by the General
Accounting Office (GAO) in its publication, "Year 2000 Crisis: A
Testing Guide" for designing a comprehensive Y2K testing plan. *To
date, no comprehensive Y2K testing plan has been distributed.*

• Inadequate validation for Y2K renovations reduces the assurance
  that systems will operate properly when called upon to process
  critical future dates after January 1, 2000. Future progress reports
  should explain whether project management will contract for
  services to validate its Y2K testing techniques and procedures, and
  if not, then explain how validation of Y2K testing for the agency's
  mission critical systems is to be achieved. *Although, agency
  contracts show that the FEC has acquired verification of
  approximately 1.5 million lines of internally developed computer
  programming code, and issued purchase orders to perform*

independent verification of Y2K renovations on a limited selection of internal hardware and software; no evidence has been provided to indicate either independent validation of testing procedures or verification of system testing results.

- The FEC had no documented business continuity and contingency plan. Some assurance that compensating controls are in place to offset the risk associated with late Y2K renovation and testing of mission critical systems could be obtained, if the Y2K project team would develop a business continuity and contingency plan. *We understand that an internal memorandum was distributed during October 1999, to agency division directors requesting that each division with a core mission critical responsibility submit detailed contingency plans. In addition, project management has recently submitted to the U.S. Office of Management and Budget a high level contingency plan, including a Day One plan.*

- Whether or not Y2K compliance for embedded chip technology is being adequately addressed by the Y2K project team could not be determined from reading the agency's progress report. For the next

progress report, it was suggested that project management describe the specific methods used to assess compliance for embedded chip technology, the overall efforts taking place to repair non-compliant chips, and the details regarding the impact of embedded chip technology on agency equipment and building facilities. *Based on documentation and information received by the OIG during October 1999, it appears that the Y2K team has obtained sufficient evidence to provide a reasonable assurance that embedded chip technologies, including building and infrastructures, will not present a problem for the FEC on January 1, 2000.*

Involvement by Federal Inspectors General in their agency's Year 2000 (Y2K) renovation projects, we believe illustrates the latest accomplishment by the IG community in achieving reengineering goals established for the 1990's. The IG audit community has turned from its traditional role as a messenger, primarily reporting on past practices, to becoming an informed intermediary, communicating the current status of agency affairs to agency heads. This was recently demonstrated at the Federal Election Commission.

The Chairman of the FEC asked the OIG, along with the Director of Data Systems Development Division to discuss at an open meeting, the

(Y2K Continued)

agency's progress in the renovation of its computer technology to be Y2K compliant. Public meetings at the FEC are presided over by six Commissioners, who are appointed by the President of the United States and confirmed by the Senate. Open meetings at the FEC closely resemble the proceedings of a public Congressional hearing. The seating layout is similar to that found in a Congressional hearing room, including space reserved for media coverage. Additionally, agenda documents are submitted in advance and all open meetings are taped with copies of the tapes available to the public.

This was the setting on September 16, 1999 when the IG and the Director of DSDD gave testimony before the Commissioners, appraising progress in the FEC's Y2K renovation project. The Director of DSDD expressed confidence that the agency's Y2K problems would be fully resolved. However, the Director also acknowledged that major tasks remain before the FEC would be Y2K compliant. For instance, the Director reported that system testing of mission critical computer systems would not be completed before November 30, 1999.

Contrary to the positive assurances expressed by the Director of DSDD, the IG reported that based on evidence gathered during a recent OIG audit with results from a follow-up evaluation, the FEC remained highly

(Y2K Continued)

vulnerable to the Y2K problem. Although, the IG recognized and applauded

accomplishments by project management, it was pointed out that in light of

the agency's slow progress in testing computer systems; performance criteria

established to claim Y2K compliance for mission critical systems with

external data exchanges most likely could not be completed prior to late

December 1999.

Consequently, at the conclusion of the September 16th meeting, the

Commissioners made an impromptu decision to have the IG return and

discuss the agency's progress at another open meeting, which has been

scheduled for November. Hopefully, in this new role, the IG community can

help prevent high risk conditions from becoming future OIG audit report

findings.

AUDITS

TITLE: *Agency Year 2000 Renovations*

ASSIGNMENT #:   **98-08**

RELEASE DATE: **May, 1999**

PURPOSE: The primary objectives of our audit were to 1) verify the reported progress of the FEC's Y2K renovation project; and 2) evaluate compliance with applicable laws & regulations.

        Detailed information concerning this audit can be found in the **Y2K** section of this report, pages 11 to 15.

AUDIT FOLLOW-UP

TITLE: ***Review of the Commission's Employee Appraisal Process***

ASSIGNMENT #:   **97-02**

RELEASE DATE: **January 1998**
 (audit report)

PURPOSE: The OIG continued to follow-up on the status of the

four audit recommendations contained in the audit report on the

Commission's employee appraisal process. The OIG conducted the first audit

follow-up in a prior reporting period to determine whether corrective action

had been taken by management to resolve the audit findings and

recommendations. The results of the prior audit follow-up were issued to the

Commission on March 31, 1999. The OIG concluded, in our memorandum to

the Commission in March of 1999, that the Personnel Office had not resolved

the four audit recommendations contained in the January 1998 audit report.

The objectives of the audit of the Commission's employee appraisal

process were to 1) determine whether the Commission's employee appraisal

process was in compliance with applicable Federal regulations and

Commission Personnel Instructions; and 2) determine whether the

Commission's monetary incentive process was in compliance with applicable

Federal regulations and Commission Personnel Instructions.

The audit addressed compliance with the Commission's Personnel Instructions and Federal regulations as they related to the employee appraisal process. The audit included a review of employee performance folders and performance plans. The OIG also verified that appraisals were properly reviewed and submitted timely to the Personnel Office. In addition, the audit included a review of performance and incentive awards to verify that the awards were granted in accordance with Commission policy and Federal regulations and processed in a timely manner. The audit report included four recommendations to the Personnel Office to address weaknesses in the Commission's employee appraisal process.

The OIG contacted the Personnel Office to determine whether the Personnel Office had implemented the audit recommendations. The OIG concluded that the Personnel Office had implemented one of the four recommendations.

The audit report included a finding that the retention of performance related documents contained in the employee performance files (EPFs) exceeded the time period allowed by the Code of Federal Regulations (CFR). The OIG recommended that the Personnel Office retain performance related documents in accordance with the CFR and amend a Personnel Instruction on

EPF procedures to comply with the CFR. The OIG inspected the employee performance files (EPFs) and the revised Personnel Instruction and confirmed that the Personnel Office had implemented the audit recommendation.

The Personnel Office has not implemented the remaining three audit recommendations that have been outstanding since January 1998. The OIG recognizes that the Personnel Office has experienced a significant staff turnover within the past two years. In addition, one of the three audit recommendations which remain outstanding would require negotiations and an amendment to the National Treasury Employees Union/FEC Labor Management Agreement. The OIG will continue to monitor the status of the recommendations and is encouraged with the Personnel Office's commitment to correct the weaknesses identified by the OIG.

The OIG intends to provide the Commission and the Personnel Office the results of our continued audit follow-up.

TITLE: *Audit of the Commission's Management of Desktop and Laptop Computers*

ASSIGNMENT #   97-03

RELEASE DATE: January 1998

PURPOSE: The audit follow-up was conducted to determine whether corrective action had been taken by management to resolve the audit findings and recommendations contained in the audit report on the Commission's management of desktop and laptop computers. The audit report was released on January 14, 1998.

The objectives of the audit of the Commission's management of desktop and laptop computers were to 1) identify and evaluate the adequacy of internal controls over desktop and laptop computers; and 2) evaluate the procedures in place to ensure that computer equipment having an acquisition cost over $5,000 is capitalized and computer equipment with unit costs under $5,000 are supported.

The audit was designed to address the adequacy of the FEC's management of desktop and laptop computers and the accuracy and reliability of inventory listings which are used by the FEC to assess needs, support procurement action and manage and service the equipment. The

audit also included a review of the adequacy of internal procedures used to identify and capitalize automated data processing (ADP) equipment. Manual or automated accounting procedures must ensure that all equipment with an acquisition cost over $5,000 must be capitalized and reported to the U.S. Department of Treasury. Equipment under $5,000 is expensed and reported as such to Treasury.

The audit report included two recommendations to improve the management of ADP equipment. First, the OIG recommended that divisions take an annual physical inventory of laptop computers and forward the results to the Data Systems Development Division (DSDD) to be reconciled with the DSDD's inventory database. The OIG recommended that the DSDD be responsible for documenting the results of the inventory on an annual basis. Second, the OIG recommended that written policies and procedures should be established for the accountability and control of personal computer property. The OIG recommended that the policies and procedures should be disseminated to all agency personnel engaged in personal property management functions and that appropriate policies, procedures, and training are provided to involved personnel.

The audit follow-up consisted of correspondence with the DSDD and the inspection of documents to determine whether corrective action had been

taken to resolve the audit findings and recommendations. The OIG acknowledges the efforts of the DSDD to address the OIG's audit recommendations. The DSDD worked on accounting for the Commission's laptops and prepared and issued guidelines on the management of desktop and laptop computers. However, the OIG believes additional steps are necessary by the DSDD in order for the OIG to close the two recommendations.

The DSDD provided the OIG with documentation of their completed inventory of laptop computers for the audit follow-up. The OIG reviewed the listing and concluded that several Commission laptops that had been retired were not reflected on the inventory list. The retired laptops are Commission property and according to the DSDD are stored in a secure area. The OIG believes the inventory listing should include a complete accountability of all Commission owned laptop computers. Therefore, the OIG concluded that the DSDD had not adequately implemented the recommendation.

The DSDD also provided the OIG with a copy of a policies and procedures document titled "Management of Desktop and Laptop Computers" which was issued by the DSDD to the head of each Commission division. The policies and procedures address the accountability and control of personal computer property. The OIG reviewed the policies and procedures and found

(Audit Follow-up Continued)

that the document does not address procedures on two important areas that

were addressed by the OIG in the audit report, lost or stolen equipment and

obsolete equipment. The policies and procedures should include the

Commission's procedures for employees to report lost or stolen equipment and

guidance on the procedures for disposing of obsolete or excess equipment.

Therefore, the OIG did not close the recommendation.

    The OIG intends to provide the Commission and the DSDD the results

of the audit follow-up.

TITLE: *Audit of the Commission's Management of Computer Software*

ASSIGNMENT # 98-05

RELEASE DATE: March 1999
(Audit Report)

PURPOSE: The audit follow-up was conducted to determine whether corrective action had been taken by management to resolve the audit finding and recommendations contained in the audit report on the Commission's management of computer software. The audit report was released on March 31, 1999.

The objectives of the audit of the Commission's management of computer software were to 1) verify that Commission computer software was in compliance with applicable copyright laws and Commission policies and procedures; 2) determine that adequate policies and procedures were in place to prevent unauthorized software use by Commission employees; and 3) ensure that adequate controls were in place to detect and prevent computer viruses.

The audit included a review of computer software programs installed on Commission computers to ensure that software complied with applicable software copyright laws and Commission policies and procedures. The OIG

reviewed the Commission's policies and procedures related to computer software to determine whether adequate policies were in place to prevent unauthorized software use by employees. Lastly, a review of the Commission's anti-virus software system was performed to ensure adequate controls were in place to detect and prevent computer viruses. The audit report released in March of 1999 contained one audit finding that controls needed to be strengthened to ensure the Commission's computers are adequately protected against computer viruses. Two recommendations were directed to the Data Systems Development Division (DSDD) and one to the Accounting Office to strengthen controls.

The audit follow-up consisted of correspondence with the DSDD and the inspection of documents to determine whether corrective action had been taken to resolve the audit finding and recommendations. In addition, a review of information received by the Accounting Office was performed to determine whether existing controls in the Accounting Office would be sufficient to address our recommendation.

The OIG concluded that the DSDD had not completely resolved the two audit recommendations based on the inspection of documents and correspondence with the DSDD. The OIG recognizes the efforts of the DSDD to address the recommendations and should be commended for their

work. However, the actions taken were not sufficient to resolve the audit finding and recommendations. Therefore, the two recommendations remain open.

The OIG concluded that the Accounting Office's response to the audit recommendation to strengthen controls adequately addressed the weakness regarding anti-virus software and several Accounting Office computers. Therefore, the recommendation directed to the Accounting Office was closed.

The DSDD is involved in a project to install the latest anti-virus software and the current virus data files on all Commission desktop and laptop computers with an anticipated completion date of September 30, 1999. In order to close a recommendation, the OIG must verify that the DSDD has implemented the recommendation prior to the close of the reporting period. Therefore, the OIG was unable to verify that the DSDD had installed anti-virus software and the current virus data files on all Commission desktop and laptop computers prior to the close of the reporting period ending September 30, 1999. The OIG plans to review the DSDD's implementation of the audit recommendation during our next reporting period. The recommendation will be closed upon verification that anti-virus software and the current virus data files have been installed on all desktop and laptop computers.

The DSDD also issued a procedures memorandum titled "FEC Computer Virus Protection Guidelines" to several DSDD staff to help ensure that the Commission's computers are protected from computer viruses. However, in order to ensure that the Commission's computers are adequately protected, it is imperative that all Commission employees are aware of their responsibilities to protect the Commission's computers from computer viruses. Therefore, the OIG believes the DSDD should issue guidelines to all staff. The DSDD has stated their intentions to issue guidelines to all staff during the next reporting period which the OIG will verify in order to close the recommendation.

The OIG intends to provide the Commission, the DSDD, and the Accounting Office with the results of the audit follow-up.

INVESTIGATIONS

No new investigations were opened during this reporting period.

ADDITIONAL OFFICE OF INSPECTOR GENERAL ACTIVITY

All legislation, as compiled by the Commission's Congressional Affairs Office, was reviewed by the Inspector General, as required by the Inspector General Act of 1978, as amended. The Inspector General also routinely reads all Commission agenda items and attends Finance Committee Meetings.

During this reporting period, a peer review of the office was conducted by the Appalachian Regional Commission's (ARC) Office of Inspector General. A peer review, by definition, is a review of an audit organization by an organization not affiliated with the audit organization being reviewed. The objectives of a peer review are to foster quality audits by OIGs through an independent assessment of their audit functions. This is accomplished by determining whether 1) an effective internal quality control system has been established in the office; and 2) established policies and procedures and applicable *Government Auditing Standards*, as promulgated by the Comptroller General of the United States, are being followed in practice.

The scope of this review included 1) selected reports and working papers for audits completed during the past two years; 2) audit universe and planning documents; 3) documents describing auditor experience and training, security practices over audits and related records; and 4) policies and procedures used to carry out the audit function. Additionally, OIG staff

were interviewed to verify the actual practices of audit control and follow-up procedures.

The peer review was completed in accordance with the bylaws for peer review evaluations adopted by the Inspectors General of Designated Agencies of the Executive Council on Integrity and Efficiency. The peer review conducted by ARC's OIG concluded that a system of internal controls is in place and operating effectively and that all audits performed by the office are being carried out in accordance with *GAO Government Auditing Standards.* In addition, the office was found to possess the necessary professional requirements to perform our duties. Furthermore, all continuing education requirements have been met.

The Inspector General served on the evaluation panel for the Inspector General position in the Office of Inspector General, National Archives and Records Administration. The heads of agencies experiencing a vacancy in the IG position will, on occasion, contact the Vice Chair of the Executive Council on Integrity and Efficiency requesting assistance from the community in the selection process. Thirty-five applicants were evaluated by the panel.

As an ongoing project, the Special Assistant to the Inspector General performed two unannounced cash counts of the FEC's imprest fund (#OIG-99-02 and #OIG-99-03). The imprest fund consists of three drawers totaling

$2,500. The results of the cash counts revealed no overage or underage and all cash was accounted for. In addition, our reviews revealed that cash disbursements from the imprest fund were reasonable and consistent with FEC imprest fund policy.

ECIE AND PCIE ACTIVITY

The executive Council on Integrity and Efficiency was established by Executive Order on May 11, 1992. It consists of Designated Federal Entity Inspectors General and representatives of the Office of Government Ethics, the Office of Special Counsel, the Federal Bureau of Investigation and the Office of Management and Budget.

The Inspector General (or staff) attending the following training, programs and/or conferences during this reporting period:

- IGATI - Fraud Auditing - Theory and Application

- Management Concepts - The Professional Woman Manager

- Management Concepts - Introduction to Federal Contracting

- Management Concepts - Writing Winning Reports

- PCIE Professional Development Forum - The Aftermath of the Supreme Court's Decision in NASA v. FLRA

- U.S. Department of Education - Moving to the next GPRA Level - Using the Plans for Decision Making

- ECIE - Formal and Informal Meetings

- PCIE Professional Development Forum - The Honorable Christopher Shays

- PCIE Professional Development Forum - The Honorable George Nethercult

- PCIE/ECIE - Joint Annual Meeting

IG ACT   REPORTING REQUIREMENTS   PAGE

Reporting requirements required by the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988 are listed below:

Section 4(a)(2)   Review of Legislation--35

Section 5(a)(1)   Significant Problems, Abuses, and
                         Deficiencies---None

Section 5(a)(2)   Recommendations with Respect to
                         Significant Problems, Abuses, and
                         Deficiencies---None

Section 5(a)(3)   Recommendations Included in Previous
                         Reports on Which Corrective Action Has
                         Not Been Completed--42

Section 5(a)(4)   Matters Referred to Prosecutive
                         Authorities--None

Section 5(a)(5)   Summary of Instances Where Information
                         was Refused---None

Section 5(a)(6)   List of Audit Reports---22

Section 5(a)(7)   Summary of Significant Reports----------------------------22

Section 5(a)(8)   Questioned and Unsupported Costs-------------------------40

Section 5(a)(9)   Recommendations that Funds be put
                         to Better Use---41

Section 5(a)(10)   Summary of Audit Reports issued before
                         the start of the Reporting Period for which
                         no Management Decision has been made----------------N/A

Section 5(a)(11)   Significant revised Management Decisions-------------N/A

Section 5(a)(12)   Management Decisions with which the
                         Inspector General is in Disagreement-------------------None

TABLE I

INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS

		DOLLAR VALUE (in thousands)	
	NUMBER	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by commencement of the reporting period	0	0	[0]
B. Which were issued during the reporting period	0	0	[0]
Sub-Totals (A&B)	0	0	[0]
C. For which a management decision was made during the reporting period	0	0	[0]
(i) Dollar value of disallowed costs	0	0	[0]
(ii) Dollar value of costs not disallowed	0	0	[0]
D. For which no management decision has been made by the end of the reporting period	0	0	[0]
E. Reports for which no management decision was made within six months of issuance	0	0	[0]

TABLE II

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

		NUMBER	DOLLAR VALUE (in thousands
A.	For which no management decision has been made by the commencement of the reporting period	0	0
B.	Which were issued during the reporting period	0	0
C.	For which a management decision was made during the reporting period	0	0
	(i) dollar value of recommendations were agreed to by management	0	0
	based on proposed management action	0	0
	based on proposed legislative action	0	0
	(ii) dollar value of recommendations that were not agreed to by management	0	0
D.	For which no management decision has been made by the end of the reporting period	0	0
E.	Reports for which no management decision was made within six months of issuance	0	0

Recommendations

Audit Report Number	Report Issue Date	Management Response Date	Number	Closed	Open
97-02	01/98	01/98	4	1	3
97-03	01/98	03/98	2	0	2
98-05	03/99	03/99	3	1	2